



ANNUAL

PERFORMANCE

PLAN

2000

Appendix A to Strategic Plan

OIG
Office of Inspector General

ANNUAL PERFORMANCE PLAN 2000

General

This appendix outlines the planned activities for the Office of Inspector General (OIG) during calendar year 2000. The plan reflects the goals and strategic direction set forth in the *OIG's Strategic Plan 2000—2004*. The results of our activities for the calendar year will be reported to the Chairman, other members of the Board (directly or through the Board's committees), and senior Board officials. The results will also be summarized in our semiannual reports to Congress as required by the Inspector General Act.

Specific Project Descriptions

Our annual plan includes activities we plan to conduct during the year 2000. As described in more detail below, we anticipate performing work associated with each of our three strategic goals and the related objectives. Since our plan includes areas (such as the Government Performance and Results Act) which we are reviewing for the first time, as well as new approaches and methodologies, it may become necessary to adjust the plan as the work progresses. In addition, our legislated requirements to review failed banks may require adjusting the plan to focus resources on unanticipated material loss reviews.

Our Annual Performance Plan includes projects begun in prior periods but still in process as of January 1, 2000, projects which have begun or will begin during the current calendar year, and follow-up work on previously issued reports. Because some projects were completed prior to the publication date of this document, we have highlighted each project's current status using the following symbols.

- ✓ Projects Completed
- ➡ Projects Currently in Process
- ★ Projects Not Yet Begun

Goal 1: Provide Value-Added Customer Service to the Board

Objective 1: Improve and Enhance the Board's Program Operations

➡ **Audit of the Board's Implementation of the Government Performance and Results Act**

Project Overview: The Government Performance and Results Act (the Results Act) continues to receive a high level of Congressional attention. The first-ever performance report detailing whether the goals set for 1999 have been met was due on March 31, 2000. While not specifically subject to the Results Act, the Board has chosen to voluntarily comply with its requirements. In 2000, we plan to focus our efforts on the Board's progress in complying with the Results Act, and to establish a plan for further audits.

Projected Start Time: 2nd Quarter

➡ **Scoping Review of the Board's Implementation Efforts and Associated Program Changes Pursuant to the Gramm-Leach-Bliley Act of 1999**

Project Overview: A major challenge faces the Federal Reserve with President Clinton's recent signing of the Gramm-Leach-Bliley Act (GLB). GLB includes a number of provisions that will create projects and activities for the Divisions of Banking Supervision and Regulation (BS&R) and Consumer and Community Affairs (C&CA). In addition, implementation of other provisions of GLB will require development of new regulations and changes in standards, policies, and procedures that effect the Board's programs and operations. In 2000, we plan to conduct a review of the associated GLB changes at the Board to enable us to get a broad understanding of the effect this legislation will have in the program areas. Our work will allow us to provide real-time feedback to the Board's divisions regarding initial implementation issues and produce a summary of the current, planned, and future program changes to use for future audit planning.

Projected Start Time: 2nd Quarter

➡ **Follow-up of the Board's Supervisory Processes for Implementing the Community Reinvestment Act**

Project Overview: In March 1999, we issued our *Report on the Board's Supervisory Processes for Implementing the Community Reinvestment Act*. The report contained three recommendations designed to enhance the consistency of Community Reinvestment Act (CRA) evaluations and five recommendations to improve the efficiency and effectiveness of CRA supervisory processes. The Director of C&CA concurred with all but one of our recommendations and said that many of our recommendations coincided with issues

identified by Federal Reserve workgroups and interagency efforts, and that some of our recommendations would be fulfilled by initiatives that were either planned or under way. During our follow-up, we will review actions taken in addressing the eight recommendations contained in the report.

Projected Start Time: 2nd Quarter

★ **Follow-up of Board Oversight of Federal Reserve Automation Consolidation**

Project Overview: In March 1997, we completed a follow-up on our February 1996 *Report on Audit of Board Oversight of Federal Reserve Automation Consolidation*. Two of our three recommendations had been adequately addressed by management at the time of our initial follow-up. During the second quarter, we plan to review actions taken regarding the open recommendation designed to strengthen Board oversight processes for automation consolidation and other Systemwide multi-year projects.

Projected Start Time: 3rd Quarter

★ **Material Loss Review (Unanticipated)**

Project Overview: As part of the Federal Deposit Insurance Corporation Act, the Inspector General of the Federal Reserve is required to conduct reviews of failed state-chartered banks that results in a material loss to the bank insurance fund. If a material loss should occur in 2000, the purpose of this review will be to identify the cause of the failure, determine whether supervision was in accordance with policy standards, and if so, whether policies and standards are in need of revision.

Projected Start Time: To be determined

Objective 2: Strengthen and Streamline the Board's Operational Infrastructure

✓ **Annual Audit of the Board's and Federal Financial Institutions Examination Council's Financial Statements**

Project Overview: As in previous years, we have contracted for an independent public accounting firm's audit of the financial statements of the Board and the Federal Financial Institutions Examination Council (FFIEC). (The Board performs the accounting function for the FFIEC.) Our auditors plan and perform the audits to obtain reasonable assurance that the financial statements are free of material misstatement. The audits include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audits also include an assessment of the accounting principles used and significant

estimates made by management, evaluation of overall financial statement presentation, and a review of the internal controls over financial reporting and their operation.

Projected Start Time: Carryforward from 1999

✓ **Participation in the Annual Audit of the Employee Benefits System Plans Financial Statements**

Project Overview: As in previous years, we will perform selected audit steps related to an independent public accounting firm's audit of the financial statements of the Federal Reserve Employee Benefits System Plans. Our audit work for this year involves primarily reconciling the payroll information reflected in the Board's payroll records to information contained in the Benefits System Plans' financial statements.

Projected Start Time: 1st Quarter

➡ **Review of the Eccles Building Infrastructure Enhancement Project**

Project Overview: In 1998 we began a monitoring effort of the project design, contract solicitation, and approval phases of this major Board procurement effort. During 1999, we continued our efforts by reviewing the project's progress and began a review of change orders and contractor billings. During 2000, we will continue our efforts, with an emphasis on auditing change orders, project milestones, and progress payments.

Projected Start Time: Carryforward from 1999

★ **Audit of Controls Over Government Travel Cards and Government Purchasing Cards**

Project Overview: Based on control deficiencies identified by our investigative staff and by OIGs in other government agencies, we plan to review the Board's use of government travel cards and government purchasing cards to determine whether employees are using their Board-provided charge cards in accordance with Board policy and whether the Board has the proper internal controls in place to prevent and detect fraudulent use.

Projected Start Time: 3rd Quarter

★ **Review of Significant Purchases and Contracts**

Project Overview: In August 1996, we issued *our Report on the Audit of the Board's Procurement and Contract Management Process*. The report addressed the Board's procurement program from a process perspective, based on a review of selected purchases and contracts. During the current year, we plan to build on the work performed during the

audit by establishing a risk-based methodology which will prioritize work in the procurement area over our five-year strategic period. Specifically, we plan to identify contracts which we believe require some level of monitoring or audit effort; usually, high-dollar-value items or unusual items. This will be an ongoing project throughout the year; each contract selected for review will become a separate project.

Projected Start Time: 4th Quarter

➡ **Business Process Review of the Board's Publications Program**

Project Overview: The Board's publications program supports the various missions of the Board by making information about the Federal Reserve accessible to the federal government, regulated entities, legal and business communities, libraries and research institutions, economists and other scholars, consumers, and the public at large. A publications committee, composed of senior officials from several Board divisions and offices, oversees the program. Drawing on a mutual interest to evaluate publishing processes and products, we reached an agreement with the committee chairperson to conduct a two-phase business process review of the Board's publications program and formed a review team consisting of both OIG and publications program staff. The phase one objectives are to determine if the current set of publications is responsive to customers' information needs and strategic objectives; determine if publications are properly priced; evaluate the use of technology and the future impact of technology advancements on publications production and distribution; identify opportunities for cost savings by reducing the number or changing the mix of publications; and identify opportunities for cost savings or service enhancements through process improvements, changes to organizational structure, or changes in resources committed to the publications program. In addressing these objectives, the team has distributed two separate questionnaires to a total of 3,200 publications subscribers to collect measurable feedback on information provided in the Reserve Bulletin and the quality of the publications program. We anticipate that the phase one results will be reported to the publications committee during the third quarter of 2000. During phase two, we will work with the committee as it prioritizes issues identified in phase one and consider alternative approaches and "best practices."

Projected Start Time: Carryforward from 1999

➡ **Human Resources Business Process Self Assessment**

Project Overview: During the first quarter, we began a collaborative effort with the Management Division that will focus on the efficiency and effectiveness of various business processes in the human resources function. This engagement will be unique because we plan to blend the complementary methodologies and approaches from Control Self Assessment and business process reengineering to create a hybrid we have labeled *Business Process Self Assessment* (BPSA). To our knowledge, no other private or public sector organization has attempted to combine elements of these powerful tools for evaluating and

improving operations. As part of our planning phase activities, we are coordinating with the Administrative Governor and senior officers and staff in the Management Division to identify and prioritize issues to include in the scope of this engagement.

Projected Start Time: 1st Quarter

★ **Financial Management Business Process Self Assessment**

Project Overview: During the third quarter, we plan to build on experience gained in the HR BPSA and form a partnership with the Finance Function to conduct a business process self assessment of the Board's financial operations. We anticipate that our scope will address two key aspects of the Board's financial operations: program analysis and budget, which focuses on budget formulation and execution; and finance and accounting, which focuses on maintaining the general ledger, preparing annual financial statements, and receiving and disbursing funds. We will also consider the linkages between the financial systems and the procurement function, which provides a centralized purchasing and contracting service for the acquisition of all Board supplies, equipment, services, and construction.

Projected Start Time: 3rd Quarter

Objective 3: Promote the Board's Effective use of Technology

✓ **Review of the Board's Century Date Change Activities**

Project Overview: For more than two years, we have monitored the century date change activities helping primarily to minimize the potential impact on the Board's internal operations and to ensure the readiness of supervised financial institutions. We continued to monitor the Board's activities through March 1, 2000. We believe our efforts improved the efficiency and effectiveness of CDC activities. More important, we identified initiatives begun during the CDC period that we believe need to continue and made suggestion that, going forward, could enhance systems and operations.

Projected Start: Carryforward from 1999

✓ **PeopleSoft Control Self Assessment**

Project Overview: In partnership with the Management Division, we conducted a control self assessment (CSA) focused on internal control issues related to the implementation and support of PeopleSoft—the Board's software application for payroll and certain other administrative functions. The CSA team, which consisted of Peoplesoft management and

staff and OIG facilitators, assessed automation control issues related to security, separation of duties, and user access and authentication. The CSA team also gained a valuable perspective from a benchmarking visit to another PeopleSoft user within the Federal Reserve System. To ensure our analysis and recommendations were comprehensive and commensurate with industry best practices, we engaged software consultants with experience reviewing PeopleSoft controls in a wide range of organizations. The CSA team considered a variety of alternatives for augmenting Peoplesoft controls and developed specific action plans to address control issues without adversely impacting business objectives.

Projected Start Time: Carryforward from 1999

➡ **Review of the Board's Participation in the Critical Infrastructure Assurance Program – Presidential Decision Directive 63**

Project Overview: In May 1998, President Clinton issued Presidential Decision Directive (PDD) 63, which calls for a national effort to assure the security of the nation's critical infrastructures. We plan to review the adequacy of the Board's critical infrastructure protection program in light of the requirements contained in PDD 63. The review will be conducted in multiple phases over a two-year period, and will be coordinated with reviews at other OIGs as part of a PCIE/ECIE initiative. Work during 2000 will focus on planning, assessment, and implementation activities for protecting critical cyber-based infrastructure. Work in this area will also be coordinated with any OIG-related requirements resulting from passage of the *Government Information Security Act of 1999* which, if passed, would require OIGs to evaluate an agency's information security program on an annual basis.

Projected Start Time: 2nd Quarter

★ **Follow-up of the Division of Consumer and Community Affairs Distributed Processing Environment**

Project Overview: Our December 1997 *Report on the Audit of the Division of Consumer and Community Affairs Distributed Processing Environment* contained five recommendations to help guide the division as it takes on new challenges in managing its distributed processing environment. Division management agreed with, and is taking action to address, the recommendations. To expedite corrective action in improving security controls, we also issued a separate restricted letter detailing our technical findings and the associated recommendations to the Director of the Division of Consumer and Community Affairs and the Director of the Division of Information Technology. The two divisions are working together to resolve these recommendations. During our follow-up, we will review actions taken in addressing the recommendations contained in both reports.

Projected Start Time: 3rd Quarter

★ **Follow-up of the Administrative Services Automation Project**

Project Overview: In June 1998, we completed a follow-up on our February 1997 *Report on the Audit of the Administrative Systems Automation Project (ASAP)*. Four of our recommendations that dealt with management and project oversight, user communications, and disaster recovery had been adequately addressed by management at the time of our initial follow-up. Actions pertaining to three of the recommendations on tracking costs, business process reengineering, and implementing change control were still in process and remained open. We plan to review additional actions taken regarding the three open recommendations.

Projected Start Time: 3rd Quarter

★ **Follow-up of the Division of Banking Supervision and Regulation Distributed Processing Environment**

Project Overview: In August 1998, we completed a follow-up on our *Report on the Audit of the Division of Banking Supervision and Regulation's Distributed Processing Environment* and closed two recommendations that addressed concerns with the organizational structure of the division's distributed processing function and the implementation of new networking and office automation software. The remaining three recommendations, which dealt with technical and security issues, policies and procedures, and help desk concerns, were still being addressed by management at the time of our initial follow-up and remained open. We plan to complete a second follow-up to determine whether sufficient actions have been taken to close these remaining recommendations.

Projected Start Time: 4th Quarter

Objective 4: Help the Board Limit Risk and Ensure Compliance

✓ **Review of the Board's Frequent Flyer Policy**

Project Overview: In 1999, we began a review of the Board's frequent flyer policy. The objectives of our review were to evaluate alternatives for implementing an economic, efficient, and effective frequent flyer program to help the Board maximize the benefit of employee participation in airline frequent traveler programs and to evaluate the level of compliance with the Board's current policy by frequent travelers. We completed this review in the first quarter and issued our report to management during the second quarter. Our report contained two recommendations designed to provide a cost-effective control framework similar to programs established at other agencies.

Projected Start: Carryforward from 1999

➡ **Employment Laws and Regulations Review**

Project Overview: The Board is subject to certain laws and regulations that impact its benefits plans and other employment-related programs. During the scheduled human resources and the finance business process self assessments, we will obtain information on the laws and regulations that impact Board programs and more clearly define objectives for further work.

Projected Start Time: 2nd Quarter

★ **Follow-up of the Board's Academic Assistance Program**

Project Overview: In February 1999, we issued our *Report on the Board's Academic Assistance Program*. The report contained 10 recommendations designed to establish an internal control framework for the Academic Assistance Program to help ensure the program (1) achieves its objective of providing financial assistance for Board-related courses to enhance employee work performance and career development, (2) complies with applicable laws and regulations, and (3) expends funds for the intended purposes and in accordance with Board policy. Management agreed with each of the recommendations and we plan to follow up on changes to the Academic Assistance Program since the original audit report was issued.

Projected Start Time: 3rd Quarter

➡ **Investigative Services**

Project Overview: Our investigators will continue to address allegations of wrongdoing related to the Board's programs and operations, as well as violations of the Board's standards of conduct. We will respond to hotline complaints as well as allegations that are referred to the OIG from our in-house audit staff, Board program staff, and other sources.

Projected Start Time: Ongoing throughout the year

Goal 2: Enhance Coordination and Information Sharing With the Congress, IG Community, and Others

Objective 1: Develop and Enhance Relations with the Congress

➡ Review of Legislation and Regulations

Project Overview: We review existing and proposed legislative and regulatory items both as part of our routine activities and on an ad hoc basis. We routinely keep track of pending legislation by reviewing lists prepared by the Board's law library, sharing information with others in the Inspector General community, and coordinating with Board programs that also review new and proposed legislation. We then independently analyze the effect that the new or proposed legislation may have on the efficiency and effectiveness of Board programs and operations. For new or proposed regulations or policies, we monitor program contributions to the proposals to ensure that the programs are fulfilling their legally mandated responsibilities and then conduct our own analyses of the possible administrative effects and the risk of fraud, waste, and abuse that could occur if the regulations and policies are implemented.

Projected Start Time: On-going throughout the year

Objective 2: Improve Our Responsiveness to Allegations of Fraud, Waste, Abuse or Mismanagement and to Public Requests for Information

➡ Hotline Operations

Project Overview: The OIG hotline operation is available to those who want to report wrongdoing in the Board's programs and operations (including delegated functions). Our local and toll-free hotline numbers and the hotline address are published in several sources, including the in-house and local telephone directories of the Board, the Reserve Banks, and the Branches. Information received via the hotline is confidential and callers to the toll-free numbers can remain anonymous. The hotline is an integral part of the OIG's prevention and detection strategy which is designed to detect and identify causes of fraud and abuse, minimize any potential damage or loss, and help the Board resolve such problems and prevent their recurrence, if possible.

Projected Start Time: On-going throughout the year

★ Web Page Development

Project Overview: Using some of the more recent Internet features of NOTES will offer us the ability to redesign our web page and link it more closely to our existing applications, to further automate our report distribution process, and to provide an electronic Hotline for reporting potential fraud and abuse. While these are long-term objectives, we believe there are several steps we can take in the short-run to provide better public access to our reports, plans, and other information that is currently available on our web pages (internal and external) and to improve the efficiency in maintaining our web page.

Projected Start Time: 3rd Quarter

Objective 3: Take a Positive Leadership Role in the IG Community

➡ ECIE Participation

Project Overview: Upon selection by the Chair of the ECIE (Deputy Director for Management or the Comptroller, Office of Federal Financial Management at the Office of Management and Budget), the FRB IG became the Vice Chair of the ECIE for an indefinite term. As Vice Chair, the FRB IG provides leadership, vision, direction, and initiatives for the ECIE on behalf of the Chair. The Vice Chair's responsibilities include keeping the Chair informed of issues and items of concern, conducting meetings, developing and distributing the agenda for the monthly ECIE meetings, preparing summaries of proceedings from these meetings, and representing the ECIE on the President's Council on Integrity and Efficiency (PCIE) and other councils as appropriate.

Projected Start Time: On-going throughout the year

➡ Independence of Designated Federal Entity OIGs

Project Overview: A number of possible changes to selected legislation and *Government Auditing Standards* are being considered that would impact OIG operations, reporting, and independence. Of particular interest this year are possible revisions to the *Government Auditing Standards* that, if implemented, would have a detrimental impact on the organizational independence of the designated federal entity (DFE) OIGs who are appointed by the agency head. In coordination with the other DFE OIGs, the FRB OIG will take a leadership role in working with responsible Congressional committees to keep them informed about these proposed revisions and their impact on our ability to carry out our duties and responsibilities required by the IG Act of 1978, as amended.

Projected Start Time: On-going throughout the year

Objective 4: Foster Interagency Approaches to Cross-Cutting Issues

➡ Community Participation

Project Overview: Our membership and leadership role in the ECIE and our continued participation in the Council of Counsels to the Inspectors General will provide vehicles for participating in, and helping to set the direction for, interagency and inter-entity projects—including audits, inspections, and investigations. Through these efforts, we can more efficiently and effectively deal with government-wide issues of fraud, waste, and abuse. We will also look for other opportunities to join interagency efforts (such as OIG GPRA Coordinators' Interest Group and the PCIE/ECIE Working Group on Critical Infrastructure Assurance) to share review techniques and offer OIG staff the opportunity to network with peers throughout the OIG community.

Projected Start Time: On-going throughout the year

Goal 3: Enhance the Efficiency and Effectiveness of Internal Operations

Objective 1: Continue to Improve Our Business Processes.

➡ Disaster Recovery Planning

Project Overview: Our experiences with the “Y2K” rollover highlighted the need to periodically perform a vulnerability assessment and establish appropriate disaster recovery and business resumption plans for our internal operations. We have begun a review of our requirements using various disaster scenarios to determine the optimal strategy for maintaining continuity of our audit, investigative, and administrative operations. We will work closely with Board IT staff to design and implement a contingency plan which provides the greatest degree of recovery flexibility while maintaining the security requirements associated with OIG electronic data.

Projected Start Time: 2nd Quarter

➡ Project Title: Notes Release 5 Implementation

Project Overview: We plan to implement the latest release of Lotus NOTES during the first half of the calendar year. Because of the hardware requirements associated with this upgrade, we anticipate completing this project concurrent with the roll-out of our new laptop computers (see below). We will also closely review our existing applications (see below) to

determine what changes need to be made to incorporate the features provided by the latest software technology.

Projected Start Time: 2nd Quarter

➡ **New Laptops**

Project Overview: Consistent with our strategic direction of replacing the laptops every three years, we plan to research, acquire, and roll out new laptops for the entire staff during calendar year 2000.

Projected Start Time: 2nd Quarter

★ **Investigative Database Redesign**

Project Overview: The use of Lotus NOTES as our application platform has allowed us to highly automate the majority of our core business processes. However, the original design of most of our key applications was completed in an early release of NOTES. Software upgrades which provide enhanced features and internal changes to business processes and roles and responsibilities have highlighted the need to review and, where appropriate, refine the existing applications. The investigative process will be the first functional area to undergo redesign.

Projected Start Time: 3rd Quarter

➡ **Policies and Procedures Update**

Project Overview: To adapt to recent changes in the OIG's organization structure we will evaluate and update existing policies and procedures as needed.

Projected Start Time: 3rd Quarter

Objective 2: Enhance Our Human Capital through Effective Leadership and Management of Our Staff

➡ **Individual Development Plans**

Project Overview: As part of our strategic approach to emphasizing career development and professional growth, we are creating individual development plans for each OIG staff member in 2000. The major objectives for individual development plans are to provide more opportunities to OIG staff to do different and challenging work (i.e., staff can and will work

in all four mission areas); expand OIG staff opportunities to learn and apply their knowledge and abilities; expand OIG staff's career choices, career paths, job enrichment options, and career opportunities; allow OIG staff members to take responsibility for managing their development goals and career options; produce experts of the Board's business and in the OIG's mission that will create best solutions for addressing issues and problems impacting the Board's programs and operations; allow the OIG to assemble, integrate, and retain highly talented employees who stay at the forefront of their professions; make it easier for OIG managers to coach, provide feedback, and develop the staff required to accomplish current and future business strategies; and improve the quality of performance and career development discussions between managers and employees.

Projected Start Time: 1st Quarter

➡ **Project Performance Evaluation Process**

Project Overview: A project performance evaluation process will be included with each project to help establish staff roles and responsibilities and expected results to measure and document the staff member's performance in completing project assignments and as an aid for the annual performance review.

Projected Start Time: Carryforward from 1999

★ **New Employee Orientation Program**

Project Overview: An updated orientation program will be developed for new OIG staff to provide continued mentoring support and to introduce new staff to office policies, pertinent administrative matters, and technical issues.

Projected Start Time: 4th Quarter